

FERC opens inquiry into coordination of gas supply, power plant operation by ISOs (newsletters)

FERC issued an order Oct. 25 instituting an inquiry into RTO and ISO scheduling practices for the purchase and transportation of natural gas by power plant operators during cold snaps or other times when the gas supply to gas-fired generation is disrupted.

The commission said it is concerned that the scheduling practices of ISOs and RTOs are not effectively coordinated with the scheduling of natural gas purchase and transportation transactions, which means that gas-fired, must-run generators may be unable to obtain gas during periods when gas transportation is constrained or gas prices are volatile.

To address these issues, FERC said it will institute inquiries under Section 206 of the Federal Power Act to provide the parties in ISOs and RTOs with a forum to examine whether scheduling and compensation mechanisms need to be revised to make sure that gas-fired generators can obtain gas when it is needed for reliability and that they are compensated appropriately when volatility in gas prices makes it hard to recover gas costs.

The order applies to all six ISOs under FERC jurisdiction: the California ISO, ISO New England Inc., Midwest ISO, New York ISO, PJM Interconnection LLC and Southwest Power Pool.

In the order, the commission directed each of the nation's ISOs to make a filing by Jan. 16, 2007, either proposing necessary changes to their scheduling and compensation systems or explaining why changes are unnecessary.

The inquiry stems from problems experienced in New England during a cold snap in January 2004, which resulted in coincident gas and electric peaks that made it hard for power plant operators to buy gas and threatened ISO New England's ability to deliver power.

"While these issues first became prominent during the New England cold snap, they may not be unique to the ISO-NE or to cold snaps. They may appear in ISO/RTO markets during hot weather or whenever the gas supply to gas fueled generation is disrupted," the Oct. 25 order said.

FERC pointed to a number of factors that appear to contribute to the problem, including the fact that peaking generators and must-run reliability generators may be able to afford only interruptible transportation on pipelines. "As a result, in times of coincident peaks, when these generators are needed for electric reliability, they may have difficulty obtaining pipeline capacity, or they may be able to obtain capacity only at high prices," FERC said.

Another contributing factor is that mismatches between ISO market clearing times and uniform pipeline scheduling times may mean that gas-fired generators cannot meet the pipeline nomination timelines. "The timing differences also may result in generators purchasing gas at times of the day when there are few traders and prices are typically higher," the order said.

A third factor is that volatile natural gas prices and relatively low ISO price caps may result in gas having a higher value in markets other than electric generation. As a consequence, generators that already have purchased gas supplies may sell their gas to receive the higher value, FERC said.

In response to the January 2004 situation, ISO New England developed interim procedures to help ensure system reliability during extreme cold weather and refined the procedures for the winter of 2005-2006. FERC noted that on Sept. 1, ISO New England filed a more refined set of procedures.

The filing provides that the scheduling times would be modified when an emergency cold weather event is declared. "The required time for all offers and bids to be submitted would be shifted forward from noon on the day prior to the operating day to 9:00 a.m. By 10:00 a.m. the ISO would notify the gas-fired units that are determined to be necessary to meet the next day's forecasted load of the minimum set of hours and MW levels," the Oct. 25 order said. "Generators thus would be able to buy gas and nominate pipeline capacity by the standardized pipeline 12:30 p.m. ET nomination deadline."

In addition, ISO New England has proposed "an extraordinary fuel expense procedure" to assure gas-fired generators that they will be able to recover high gas fuel and pipeline transportation and delivery costs, including pipeline penalties.

The North American Energy Standards Board established a gas/electric coordination task force to examine the relationship of gas and electric scheduling standards. On June 27, 2005, the board submitted a report to FERC that included standards for natural gas transmission service providers' communications with power generators and RTOs. The commission is proposing to adopt these standards in a rulemaking. (EL07-1, EL07-2, EL07-3, EL07-4, EL07-5, EL07-6)